

**Internal Revenue Service**

Department of the Treasury  
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Date:  
April 10, 2009

- Year 1 =
- Donor 1 =
- Trust 1 =
- Donor 2 =
- Trust 2 =
- Attorney =
- Year 2 =
- Year 3 =

Dear :

This responds to your submission dated September 29, 2008, and subsequent correspondence, requesting an extension of time pursuant to § 2642(g) of the Internal Revenue Code and § 301.9100-3 of the Procedure and Administration Regulations to elect out of the generation-skipping transfer (GST) tax exemption automatic allocation rules.

Donor 1 and Donor 2 are husband and wife. In Year 1, Donor 1 created Trust 1, an irrevocable trust for the benefit of Donor 2 and their children. Trust 1 is funded with insurance policies on Donor 1's life. During Donor 1's life, income is to be accumulated and added to principal. On Donor 1's death, income and principal is payable to Donor 2 for Donor 2's support, maintenance, health and education and as Donor 2 shall appoint among their children. On Donor 2's death, the remaining corpus is divided among the children per stirpes, with distributions to occur upon a child's attainment of age 30, 35, 40, and 45.

Also in Year 1, Donor 2 formed Trust 2, an irrevocable trust for the benefit of their children. Trust 2 is funded with insurance policies on Donor 2's life. During Donor 2's life, income is to be accumulated and added to principal. On Donor 2's death, the corpus is distributable to the children per stirpes, with distributions of corpus to occur upon a child's attainment of age 30, 35, 40, 45.

Both trusts were drafted by Attorney who, after drafting the trusts, provided no further advice to Donors 1 and 2. In Year 2, the deemed allocation rules of § 2632(c) became effective. In Year 3, Donor 1 learned that under the deemed allocation rules, GST exemption was being allocated to the transfers to Trusts 1 and 2, and that to avoid the allocation of GST exemption to a GST trust, a taxpayer must affirmatively elect out. Donors 1 and 2 now seek a ruling granting an extension of time to elect out of the automatic allocation rule. In the interim, there have been no generation skipping transfers from the trusts, and no inconsistent allocation of GST exemption to any other transfers.

Section 2601 imposes a tax on every generation-skipping transfer. A generation-skipping transfer is defined under § 2611(a) as (1) a taxable distribution, (2) a taxable termination, and (3) a direct skip.

Section 2602 provides that the amount of the tax is the taxable amount multiplied by the applicable rate. Section 2641(a) defines the applicable rate as the product of the maximum estate tax rate and the inclusion ratio with respect to the transfer. Under § 2642(a)(1), the inclusion ratio with respect to any property transferred in a generation-skipping transfer is generally defined as the excess of 1 over the applicable fraction. The applicable fraction, as defined in § 2642(a)(2), is a fraction, the numerator of which is the amount of GST exemption under § 2631 allocated to the trust (or to property transferred in a direct skip), and the denominator of which is the value of the property transferred to the trust or involved in the direct skip.

Section 2631(a), as effective in the year at issue, provided that, for purposes of determining the inclusion ratio, every individual shall be allowed a GST exemption of \$1,000,000 (adjusted for inflation under § 2631(c)) which may be allocated by such individual (or his executor) to any property with respect to which such individual is the transferor. Section 2631(b) provides that any allocation under § 2631(a), once made, shall be irrevocable.

Section 2632(c)(1) provides that if any individual makes an indirect skip during such individual's lifetime, any unused portion of such individual's GST exemption shall be allocated to the property transferred to the extent necessary to make the inclusion ratio for such property zero. If the amount of the indirect skip exceeds such unused portion, the entire unused portion shall be allocated to the property transferred.

Section 2632(c)(3)(A) provides that, the term "indirect skip" means any transfer of property (other than a direct skip) subject to the tax imposed by chapter 12 made to a GST trust, as defined in § 2632(c)(3)(B). Under §§ 2632(c)(5)(A)(i)(I) and (II), an individual may elect to have the automatic allocation rule contained in § 2632(c)(1) not apply to an indirect skip, or to any or all transfers made by such individual to a particular trust.

Section 2632(c)(5)(B)(ii) provides that an election under § 2632(c)(5)(A)(i)(II) may be made on a timely filed gift tax return for the calendar year for which the election is to become effective.

Section 26.2632-1(b)(2)(iii) of the Generation-Skipping Transfer Tax Regulations provides, in part, that the election is to be made by attaching a statement (the election out statement) to a Form 709 filed on or before the due date for timely filing of the Form 709 for the calendar year in which the first transfer to be covered by the election out was made. The Form 709, with the attached statement, must be filed whether or not any transfer was made in the calendar year for which the Form 709 was filed, and whether or not a Form 709 otherwise would be required to be filed for that year. The election out statement must identify the trust and specifically must provide that the transferor is electing out of the automatic allocation of GST exemption with respect to the described transfer or transfers. In the case of a transfer treated under § 2513 as made one-half by the transferor and one-half by the transferor's spouse, each spouse is treated as a separate transferor who must satisfy separately the election out requirements.

Section 2642(g)(1)(A) provides, generally, that the Secretary shall by regulation prescribe such circumstances and procedures under which extensions of time will be granted to make an allocation of GST exemption described in § 2642(b)(1) or (2), and an election under § 2632(b)(3) or (c)(5). Such regulations shall include procedures for requesting comparable relief with respect to transfers made before the date of the enactment of this paragraph.

Section 2642(g)(1)(B) provides that in determining whether to grant relief under § 2642(g)(1), the Secretary shall take into account all relevant circumstances, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant. For purposes of determining whether to grant relief, the time for making the allocation (or election) shall be treated as if not expressly prescribed by statute.

Notice 2001-50, 2001-2 C.B. 189, provides that, under § 2642(g)(1)(B), the time for allocating the GST exemption to lifetime transfers and transfers at death, the time for electing out of the automatic allocation rules, and the time for electing to treat any trust as a generation-skipping transfer trust are to be treated as if not expressly prescribed by statute. The Notice further provides that taxpayers may seek an extension of time to make an allocation described in § 2642(b)(1) or (b)(2) or an election described in § 2632(b)(3) or (c)(5) under the provisions of § 301.9100-3.

Section 301.9100-3 provides the standards used to determine whether to grant an extension of time to make an election whose date is prescribed by a regulation (and not expressly provided by statute). In accordance with § 2642(g)(1)(B) and Notice 2001-50, taxpayers may seek an extension of time to make an allocation described in

§ 2642(b)(1) or (b)(2) or an election described in § 2632(b)(3) or (c)(5) under the provisions of § 301.9100-3.

Section 301.9100-3(a) provides, in part, that requests for relief subject to § 301.9100-3 will be granted when the taxpayer provides the evidence to establish to the satisfaction of the Commissioner that the taxpayer acted reasonably and in good faith, and the grant of relief will not prejudice the interests of the Government.

Section 301.9100-3(b)(1) provides, in part, except as provided in § 301.9100-3(b)(3)(i) through (iii), that a taxpayer is deemed to have acted reasonably and in good faith if the taxpayer reasonably relied on a qualified tax professional, including a tax professional employed by the taxpayer, and the tax professional failed to make, or advise the taxpayer to make, the election.

Based on the facts submitted and the representations made, we conclude that the requirements of § 301.9100-3 have been satisfied. Accordingly, Donor 1 and Donor 2 are granted an extension of time of 60 days from the date of this letter to make an election under § 2632(c)(5)(A)(i)(II) that the automatic allocation rules do not apply to the transfers to Trust 1 and Trust 2. The election out will be effective as of Year 2. The elections should be made on amended Forms 709 for Year 2, and filed with the Internal Revenue Service Center, Cincinnati, Ohio 45999. A copy of this letter should be attached to each Form 709. Two copies are enclosed for that purpose.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

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CURT G. WILSON  
Associate Chief Counsel  
(Passthroughs & Special Industries)

Enclosures

Copy for § 6110 purposes (1)  
Copy of this letter (2)

cc: